

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 IO-10 /097 W

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R 251822Z SEP 75

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 5029

INFO OECD PARIS 2403

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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E.O. 11652: N/A

TAGS: BE, ELAB, ECON

SUBJECT: BELGIAN GOVERNMENT SEEKS TO REVISE INDEXATION SYSTEM
FOR WAGES AND SALARIES

REF: BRUSSELS 06952

SUMMARY. BELGIAN GOVERNMENT IS EXPECTED ANNOUNCE SEPTEMBER 25
DECISION TO LIMIT INDEXATION ON WAGES AND SALARIES BY DELAYING
SCHEDULED INCREASES. NEW COMPROMISE PROPOSAL WILL REQUIRE PARLIAMENTARY

ACTION AND TRADE UNIONS ARE EXPECTED TO CONTINUE TO RESIST THIS
FORMULA. STRUGGLE OVER THE INFLATION-CONTROL ISSUE MAY WELL BE
LENGTHY AND WILL DOMINATE BELGIAN POLITICAL SCENE THIS AUTUMN.
END SUMMARY.

1. AS PART OF GENERAL ANTI-RECESSION PACKAGE (SEPTTEL), COUNCIL OF
MINISTERS MEETING SEPTEMBER 25 IS EXPECTED DECIDE ON LIMITED AND
TEMPORARY REVISION OF CURRENT SYSTEM OF AUTOMATIC INDEXING OF
WAGES AND SALARIES. CHANGE REFLECTS RESPONSE TO RECENT OECD REPORT
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(SEE REFTE) WAS WELL AS TO COMPLAINTS FROM EMPLOYERS FEDERATION (FEB)

AND LIBERAL PARTY THAT INDEXING HAS PRICED BELGIAN GOODS OUT OF INTERNATIONAL COMPETITION BECAUSE OF HIGH WAGE COSTS. NEW FORMULA, WHICH WOULD ONLY BE EFFECTIVE FOR TWELVE MONTHS, CALLS FOR DELAY IN APPLICATION OF WAGE INCREASES UNTIL INDEX HAS PASSED TWO PIVOT POINTS, RATHER THAN ONE, AS AT PRESENT. AT PRESENT INDEX MUST RISE TWO PERCENTAGE POINTS TO SET OFF ACCOMPANYING WAGE INCREASES. GOVERNMENT ENVISIONS RAISING THE TRIGGER LEVEL TO FOUR PERCENT. EFFECT WOULD BE SLOW DOWN PACE OF RISE IN BELGIAN LABOR COSTS, WHICH HAS REACHED 8 PERCENT OVER PAST SIX MONTHS (INCLUDING TWO MONTHS WHEN A PRICE FREEZE WAS IN EFFECT).

2. IN ORDER TO MAKE THIS PROPOSAL ATTRACTIVE TO TRADE UNIONS, WHICH HAVE MAINTAINED CONSTANT POSITION OF "HAND OFF THE INDEX SYSTEM", GOVERNMENT PLANS TO MOVE AHEAD WITH PUBLIC INVESTMENT COMPANY WHICH HAS BEEN A MAJOR DEMAND OF UNIONS AND ALSO TO INSTITUTE A CEILING ON INDEXATION OF EXECUTIVE-LEVEL SALARIES. GOVERNMENT PROPOSAL ON INDEXING WILL REQUIRE PARLIAMENTARY APPROVAL IN FORM OF LEGISLATION BEFORE IT CAN COME INTO FORCE.

3. COMMENT: TRADE UNIONS WILL NOT READILY ACCEPT THIS ANTI-INFLATION MEASURE WHICH REMOVES SOME OF WAGEARNERS INSULATION AGAINST PRICE RISES. POSSIBLY UNIONS WILL SEEK ADJUDICATION BY COUNCIL OF STATE (SEMI-JUDICIAL BODY WHICH RULES ON CONSTITUTIONALITY OF PENDING LEGISLATION). SOME UNIONS MAY THREATEN STRIKES, PARTICULARLY IN PUBLIC SECTOR, IF GOVERNMENT MAKES DETERMINED EFFORT TO PUSH PROPOSAL THROUGH PARLIAMENT. ALL THIS MEANS THAT QUICK ACTION TO LIMIT COST-PUSH INFLATION IS NOT LIKELY. OUR SOURCES IN PRIME MINISTER'S OFFICE TELL US THAT TINDEMANS AND HIS PROFESSIONAL INTIMATES FORESEE A DIFFICULT POLITICAL SEASON AHEAD BUT DO NOT FEEL EXISTENCE OF PRESENT GOVERNMENT IS LIKELY TO BE THREATENED SERIOUSLY THIS YEAR. THIS DOES NOT MEAN THEY ARE CONFIDENT OF GETTING INFLATION-CONTROL PROGRAM THROUGH INTACT. COMPROMISE, THEY POINT OUT, IS AN ANCIENT AND HONORABLE BELGIAN CUSTOM. RENNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, MINISTERIAL MEETINGS, ANTIINFLATIONARY PROGRAMS, RETAIL PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchantr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRUSSE08578
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750333-0941
From: BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750915/aaaaanar.tel
Line Count: 95
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BRUSSELS 6952
Review Action: RELEASED, APPROVED
Review Authority: buchantr
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2003 by BoyleJA>; APPROVED <16 OCT 2003 by buchantr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BELGIAN GOVERNMENT SEEKS TO REVISE INDEXATION SYSTEM FOR WAGES AND SALARIES
TAGS: ELAB, ECON, BE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006